

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-05 H-02
INR-07 L-03 NSAE-00 NSC-05 PA-02 PRS-01 SP-02
SS-15 USIA-15 AID-05 COME-00 EB-08 FRB-01 TRSE-00
XMB-04 OPIC-06 LAB-04 SIL-01 OMB-01 STR-05 /117 W
-----114631 211129Z /10

R 210911Z DEC 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC 3756
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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USEEC

USOECN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: PROSPETS FOR THE 15-MONTH BUDGET

1. SUMMARY: THE GOJ WILL, BY THE END OF NEXT WEEK, FORM-
LIZE ITS BUDGET PLANS FOR THE NEXT 15 MONTHS. BASED ON PRESS
REPORTING, IT APPEARS THE SUPPLEMENTARY BUDGET WILL ADD YEN
370 BIL TO TOTAL FY 1977 GENERAL ACCOUNT EXPENDITURES AND THAT
THE FY 1978 BUDGET WILL CALL FOR A 20 PERCENT INCREASE IN
GENERAL ACCOUNT EXPENDITURES WITH A HEAVY EMPHASIS ON PUBLIC
WORKS PROGRAMS. FISCAL LOAN AND INVESTMENT PROGRAMS (FLIP)
MAY BE INCREASED ABOUT 18 PERCENT IN FY 1978. THE FY 1977 BOND
DEPENDENCY IS EXPECTED TO BE 34 PERCENT AND, WITH A BIT OF
MINISTRY OF FINANCE (.9*) LEGERDEMAIN, A 32 PERCENT RATIO IS
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PROJECTEDFOR FY 1978. END SUMMARY.

2. THE TIMETABLE FOR BUDGET DECISIONS IS AS FOLLOWS:

DEC 23, A.M. -- MOF BUDGET DRAFT PRESENTED TO CABINET
MINISTERS MEETING AND TO LIBERAL DEMOCRATIC PARTY (LDP)

DEC 23, P. -- MOF BUDGET DRAFT PRESENTED TO MINISTRIES

DEC 24-26 -- DISCUSSIONS BETWEEN MINISTRIES AND MOF

DEC 27 -- NEGOTIATIONS AMONG VICE MINISTERS AND MOF OVER
PROPOSED BUDGETS

DEC 28-DEC 29 A.M. -- MINISTER LEVEL BUDGET NEGOTIATIONS

DEC 29, AFTERNOON - PRELIMINARY CABINET MINISTERS MEETING TO
APPROVE GOVT BUDGET DRAFT

DEC 29, EVENING -- CABINET MINISTERS MEETING TO APPROVE FINAL
DRAFT

3. THE BUDGET PROPOSALS WILL BE DESIGNED TO COVER THE 15-
MONTH PERIOD FROM JAN 1, 1978 TO MARCH 31, 1979, AND WILL
CONSIST OF TWO PARTS, A SUPPLEMENTAL BUDGET FOR THE LAST
QUARTER OF JFY 1977 AND THE ANNUAL BUDGET FOR JFY 1978. THE
FOLLOWING TABLE, BASED ON PRESS REPORTING, WHICH IS MORE OFTEN
THAN NOT ACCURATE, LAYS OUT THE BROAD AGGREGATES EXPECTED TO
BE PRESENTED.

JFY 1977 AND JFY 1978 BUDGETS

(IN YEN TRILLION; PERCENT INCREASE FROM THE
INITIAL OUTLAY OF PRIOR YEAR SHOWN IN PAREN)

JFY 1977

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SUPPLEMENTAL

INITIAL I II FINAL JFY 1978

GENERAL ACCOUNT

BUDGET:

AGGREGATE EX-

PENDITURE	28.5	0.3	0.7	29.4	34.3
	(17.4)		(20)		

OF WHICH:

PUBLIC WORKS	4.3	0.4	0.4	5.0	N/A
	(21.4)		(LESS THAN		
			30 PERCENT)		

REVENUE:

TAX RECEIPTS	18.2	2".3	-0.8	17.1	21.0
NON-TAX RECEIPTS	1.8	0.4		2.2	2.3
BOND PROCEEDS	8.5	0.1	1.3-1.5	10.0	11.0
BOND DEPENDENCE					

(IN PERCENT)	29.7		34.0	32.0	
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FISCAL LOAN AND	12.5	0.7	0.4	13.3	14.7-15.0
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INVESTMENT	(18.1)		(17-19)		
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PROGRAM

4. SUPPLEMENTARY FY 1977 BUDGET: IT APPEARS THE SECOND

SUPPLEMENTARY BUDGET WILL CONTAIN APPROXIMATELY YEN 700 BIL OF ADDITIONAL APPROPRIATIONS. AT LEAST HALF OF THIS (YEN 370 BIL) IS EXPECTED TO BE FOR ADDITIONAL PUBLIC WORKS PROJECTS. THE BALANCE WILL APPARENTLY BE USED TO ESTABLISH A NEW SETTLEMENT ADJUSTMENT FUND WHICH WILL BE ESSENTIALLY A CONTINGENCY RESERVE TO COVER THE POSSIBILITY THAT TAX REVENUES DO NOT COME UP TO EXPECTATIONS IN THE NEXT THREE MONTHS. TAX REVENUES HAVE BEEN RUNNING BELOW EARLIER ESTIMATES AND THE MOF CONCEDES THE SHORTFALL WILL BE AT LEAST YEN 800 BIL. THE SHORTFALL COUND RUN AS HIGH AS YEN 1.1 TRILLION, AND THE SETTLEMENT ADJUSTMENT FUND WILL COVER THE CONTINGENCY. A SMALL YEN 40 BIL INCREASE IN FY 1977 FLIP PROGRAMS IS ALSO EXPECTED TO BE ANNOUNCED ALONG WITH THE SUPPLEMENTARY BUDGE.

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INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-02 INR-07
L-03 NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15
USIA-15 AID-05 COME-00 EB-08 FRB-01 TRSE-00
XMB-04 OPIC-06 LAB-04 SIL-01 OMB-01 STR-05 /105 W
-----114703 211129Z /10

R 210911Z DEC 77
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC 3757
TREASURY DEPT WASHDC
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5. AS A RESULT OF THE REVENUE AND EXPENDITURE CHANGES, MOF WILL REPORTEDLY BE ASKING FOR AUTHORITY TO ISSUE AN ADDITIONAL YEN 1.3-1.5 TRILLION IN BONDS DURING FY 1977. IF THE FULL AMOUNT IS ISSUED, TOTAL BOND ISSUANCE DURING FY 1977 WILL COME TO YEN 10.0 BIL (\$42 BIL AT YEN 240/DOLLAR), AND ACCOUNT FOR 34 PERCENT OF GENERAL ACCOUNT EXPENDITURE.

6. FY 1978 REGULAR BUDGET. TOTAL EXPENDITURE IN THE GENERAL ACCOUNT FOR FY 1978 IS EXPECTED TO BE PEGGED AT YEN 34.3 TRILLION, A 20 PERCENT INCREASE OVER INITIALLY BUDGETED OUTLAYS FOR FY

1977. THE BIGGEST INCREASES ARE LIKELY TO COME IN PUBLIC WORKS PROGRAMS, WHICH ARE EXPECTED TO BE INCREASED BY SLIGHTLY LESS THAN 30 PERCENT. FLIP OUTLAYS ARE EXPECTED TO BE INCREASED BY 17-19 PERCENT DURING FY 1978 OVER INITIALLY BUDGETED FY 1977 LEVELS. THE INCREASE WILL AGAIN PROBABLY BE USED LARGELY TO FINANCE INCREASED PUBLIC INVESTMENT AND HOUSING PROJECTS.

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7. TAX REVENUES ARE EXPECTED TO RISE IN LINE WITH FORECAST 12 PERCENT INCREASE IN NOMINAL GNP. ON THIS ASSUMPTION, ACTUAL TAX PROCEEDS DURING FY 1978 WOULD AMOUNT TO ROUGHLY YEN 19 BIL. TO HOLD DOWN THE REQUIREMENT FOR BOND FINANCING, MOF IS UNDERSTOOD TO BE PROPOSING TO ASK FOR LEGISLATIVE AUTHORITY (ON A ONE-TIME ONLY BASIS) TO CALCULATE FY 1978 CORPORATE PROFIT TAXES ON AN ACCRUAL BASIS. THUS, THAT PART OF CORPORATE TAXES DUE ON FY 1978 PROFITS BUT NOT ACTUALLY PAID UNTIL EARLY FY 1979 -- ABOUT YEN 2 TRILLION -- WOULD BE COUNTED IN THE MOF BUDGET AS FY 1978 TAX RECEIPTS. WITH THIS TREATMENT, SHORT-TERM BONDS COULD BE USED TO COVER THE ACTUAL REVENUE SHORTFALL RATHER THAN REQUIRING ISSUANCE OF NATIONAL BONDS. USING THIS WRINKLE, MOF WILL ESTIMATE TOTAL TAX RECEIPTS FOR FY 1978 AT YEN 21 TRILLION. TAKING ACCOUNT OF NON-TAX RECEIPTS (USER CHARGES, ETC.) THE FY 1978 BUDGET IS EXPECTED TO SHOW A GENERAL ACCOUNT DEFICIT OF YEN 11 TRILLION (\$46 BIL) TO BE FINANCED BY SALE OF NATIONAL BONDS. THIS WOULD BRING THE BOND DEPENDENCY RATIO TO 32 PERCENT. WITHOUT THE ACCRUAL TREATMENT OF CORPORATE PROFIT TAXES, THE BOND DEPENDENCY WOULD JUMP TO 37 PERCENT.

8. SOME CHANGES IN TAXES ARE EXPECTED TO BE PROPOSED BUT THEY APPARENTLY WILL NOT MAKE A MAJOR CHANGE IN THE DEFICIT PICTURE, SINCE THEY ARE EXPECTED TO RESULT IN A NET INCREASE IN REVENUES OF ABOUT YEN 474 BIL DURING A FULL YEAR AND WILL NOT BE FULLY EFFECTIVE DURING FY 1978. THE PROPOSALS INCLUDE:

- YEN 190 BIL HIKE IN ALCOHOL TAXES
- YEN 210 BIL FROM A NEW TAX ON PETROLEUM AND RELATED PRODUCTS
- YEN 33 BIL FROM A NEW SECURITIES TAX
- YEN 100 BIL FROM A TIGHTENING OF CORPORATE AND PERSONAL INCOME TAX REGULATIONS

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- MINOR TAX CONCESSIONS COSTING YEN 60 BIL IN TAX REVENUES

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Message Attributes

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Copy: SINGLE
Sent Date: 21-Dec-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
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Disposition Remarks:
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TAGS: EFIN, JA
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